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ABSTRACT

School finance is a complicated topic that is central to determining how to provide quality education to all students. Historically, school finance has been linked to local property taxes, which has led to disparities in school spending. In the 1990s, school finance issues have been more closely linked with student achievement. This has occurred because of the increase over the past 3 decades in school funding without an equal increase in student achievement. Systemic reform with student achievement standards in core areas, revised curriculum, and restructuring of the educational system is essential in finance reform. Greater accountability for teachers and schools is also needed. Financial incentives or sanctions also can be useful in encouraging improvement in schools which should focus more on what they can accomplish with existing resources rather than constantly seeking new money. Reorganizing school systems is necessary so that they create market structures. The history of finance in American schools is based on local control through school districts and local financing through property tax. New financing structures must overcome the problems present in this traditional structure. (JPT)

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FOCUS IN CHANGE

THE NATIONAL CENTER FOR EFFECTIVE SCHOOLS WINTER 1994 NO. 13

The Future of School Finance

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The Future of School Finance

Almost all educators agree that school finance is a complicated topic, almost maze-like in its complexity. Articles on the topic are studded with references to intricate state aid formulas and landmark court cases. Yet although school finance can be confusing, a sound knowledge of it is extremely critical to inform any discussion of education reform. Again and again we are confronted with a basic question: How can funds available to schools and districts best be used to provide an adequate education for all children?

This question is not one that can be answered glibly. The dramatic difference in the quality of education as provided in wealthy and poor districts has been documented poignantly (Kozol, 1991). While it is fair to note that many districts fall somewhere between wealth and poverty and therefore do not present such glaring inequities, nonetheless equity *and* adequacy are fundamental to the U.S. system of education. Almost all will agree that children should have equal access to an education of high quality.

In this issue of *Focus in Change*, we present a comprehensive discussion of the future of school finance, tackling the issues of equity and adequacy and also forecasting the direction in which school finance is headed in the 1990s and beyond. In preparing and researching this issue, we were committed to publishing information that would present cogent, well-argued, and occasionally provocative points about school finance's future—expressed in a way that would be useful to school staff and others involved in education reform. To do so, we consulted three experts in school finance, each with differing yet complementary viewpoints. We also provide an example from practice to illustrate how one concept central to the future of school finance—site-based budgeting—has worked in application.

We hear first from Allen Odden, an expert on educational finance and policy, who shares a comprehensive overview of the future of school finance. Odden, currently professor of educational administration at the University of Wisconsin-Madison, co-directs the Finance Center of the Consortium for Policy Research in Education (CPRE) and directs research projects on the implementation of school finance reform.

In his comments, Odden asks how high-performing schools can be created, and emphasizes that the changing role of school finance will be one that supports such schools. He maintains that educational policy will link itself much more closely to school finance as schools strive to meet ambitious national, state, and local goals for achievement—and are held accountable for results.

He notes that accountability—or linking dollars spent to results in terms of student achievement—will dominate the future of school finance. Finally, Odden explains how schools that are not high-performance schools can be prodded to improve their record.

One way to encourage schools to improve is through the use of state-provided financial incentives to schools and districts. What do such incentives promise? Are they wise? To learn more about incentives, we talked to Lawrence O. Picus, assistant professor and director of the Center for Research in Education Finance at the University of Southern California. He is candid about the use of incentives, pointing to the need for policymakers to be clear on the goals they want schools to achieve. But he argues that above all, the most intelligent financial incentives are those that nudge schools to reconfigure the resouces they already possess in order to improve.

The argument versus equity and adequacy is presented by Richard A. Rossmiller, a long-time authority on school finance, law, and reform. Rossmiller, professor emeritus of educational administration at the University of Wisconsin-Madison and former director of NCES, explains the well-intentioned movement toward equity in terms of dollars spent per pupil in the United States. But he points out why financial equity alone is not enough: educators and policymakers must define clearly what they mean by an adequate education, and support their vision with an appropriate funding structure. He warns that we may end up with technically equitable programs that do not meet the needs of students.

Also in this issue, we illustrate how site-based budgeting has worked in an elementary school in Louisville, Ken- through the eyes of a key teacher on the participatory management team. How do teachers and other school staff with little or no prior background in budgeting assume such responsibility? What rewards, if any, do they find? Is there special training they need?

Last, we provide a selective bibliography culled from an exhaustive literature search, and conclude with the comments of Florence L. Johnson, director of NCES.

"The big issue is: Do students achieve?"

SCHOOL FINANCE: BRAVE NEW WORLD?

ANNE TURNBAUGH LOCKWOOD

WHAT should school staff expect from school finance in the 1990s and beyond? Are major changes anticipated in the ways schools finance their programs? What impact will reform have on finance, and vice versa? In what ways will school finance and educational policy connect to form a foundation upon which the current structure of schools will be rebuilt? To gain a sense of the future of school finance, we talked to Allan Odden, an expert on school finance, educational policy, and educational policy implementation. Currently professor of educational administration at the University of Wisconsin-Madison, he is co-director of the Finance Center of the Consortium for Policy Research in Education (CPRE), which is funded by the U.S. Department of Education. CPRE is a consortium of the University of Wisconsin-Madison, Rutgers, Harvard, Michigan State, and Stanford.

Odden worked with the Education Commission of the States for a decade in various positions; he was president of the American Educational Finance Association in 1979-80, and served as research director for special state educational finance projects in Connecticut (1974-75), Missouri (1975-77), New York (1979-81), South Dakota (1975-77), Texas (1988), and most recently New Jersey (1991) and Missouri (1992-93). He currently directs research projects on the implementation of school finance reform in Kentucky, New Jersey, and Texas as well as research on school-based management and school finance issues for the 1990s. Odden is widely published and has consulted for governors, state legislators, chief state school officers, the U.S. Congress, the U.S. Secretary of Education, and many local school districts.

What is the major direction in which school finance is headed in the 1990s? In what ways will the financing of schools change in tandem with restructuring efforts currently underway? According to Allan Odden, in order to understand the strong currents pulling school finance into a new future, it is necessary first to look backward. "Historically," Odden says, "school finance has been defined as a problem of differential access to raising local taxes, because schools were financed primarily from the local property tax."

This reliance on property taxes as the primary funding source for schools has resulted in fiscal disparities between wealthy and poor districts. "At a given tax rate, the rich districts raised much more than the average and both the rich and average districts raised more than the poor," Odden explains.

Yet Odden sees a change from the emphasis on fiscal disparities that dominated the discussion of school finance until the 1990s to today's expanded dialogue between finance experts, practitioners, and policymakers. This dialogue, he says, is expanding beyond a narrow focus on inputs to a broader consideration of results, or what the money put into schools actually buys in terms of students' learning.

"Beginning in the late 1980s the input orientation was questioned, because the education policy system was moving to a results and student achievement orientation," Odden states. "The big issue is: Do students achieve? Is there a variation in student achievement? If there is a variation—which there is—how can we restructure the program system *and* the finance system to get all kids up to high levels of proficiency in advanced content areas?"

What does this new attention to results mean? According to Odden, school finance will become much more heavily linked with results in the 1990s and beyond. He points to a trend in recent court cases to support his belief. "Much of the school finance litigation in the '70s focused on fiscal disparities. In the '90s, there is litigation almost all over the country. While many cases have been structured as the traditional cases were structured—concentrating on fiscal disparities—there is a new strand that talks about the adequacy of the education system. We still have a legacy that wants to fix the fiscal disparities; proponents of this believe that until we do that we cannot talk about adequacy. Yet we have a new strand that maintains that even if funding is equal in terms of the tax base per child across districts or money per child across districts, there may not be enough money in the system to provide an adequate education system."

To illustrate, he refers to the Alabama court case. "In the Alabama case the judge ruled that the finance structure was equal but inadequate. Now Alabama must design a major educational reform program, and put a lot of money into the system to make it more adequate so that it will meet the state education standards."

Whereas in the past education policy has stood somewhat apart from school finance, Odden sees a third strand in school finance that connects the two. "This connection will focus directly on what students need to learn, know, and be able to do," he remarks. "The best example of this is the Kentucky case, which started as a traditional school finance case and ended when the court threw out the entire system. Kentucky had to design a new education system, which they did by identifying clear student achievement goals, putting into place new curriculum standards of high quality, creating a new performance-based testing system, and then linking

a finance structure to that. They are also supposed to restructure how they pay teachers. There are several elements that are being phased in over a five to six year time period, but that is the most aggressive court case which has tried to link school finance with student learning."

Linking With Results

Student performance lies at the heart of the new school finance, Odden says, and is reflected in other recent court cases. "In some cases, the judge will say that the whole goal of the education system is to produce students who have the learning and analytic skills needed for the evolving information and knowledge-producing economy of the twenty-first century. Many low-spending poor districts do not have enough money to provide that kind of learning, so they do not place the outcome learning piece centrally and directly on the agenda."

He adds, "This is not the broad outcomes-based education known as OBE; it is more tightly focused in the content areas. That is important because there are many conflicting goals and objectives in education systems, and a focus on learning in the content areas provides a clear emphasis."

Why should school finance link itself to student results? To Odden, the answer is clear. "There is a productivity problem in the schools," he says frankly. "We have been putting a lot of money into schools, but student achievement is flat. We have low student achievement for low-income and minority children. If you look at numbers, over the last thirty years we have put about 225% more money per pupil in inflation-adjusted terms into the system. By any kind of measure of student achievement, achievement is where it was twenty or thirty years ago."

What happened? Odden answers concisely: "Money went up, achievement stayed flat, and there was a productivity drop. This means that now we must realize we need to produce some student achievement increases for the new money we put into the system."

But if improved outcomes were that simple, they would have been realized by now. Odden explains that schools must move in dramatic new directions in order to realize significant gains in student achievement. "The main question and strategy we need to consider is: How can we create high-performing schools? In the finance system we need to reinforce and support those high-performing schools."

Although he pushes for a link between school finance and results, he warns of a potential problem if states fund schools strictly on a student achievement basis. "We will end up with an upside-down system, because more money would be given to the high-achieving school districts, which tend to be the high-wealth, high-spending, high-income, and socio-economically upper-class districts.

"Therefore, we need to think first about how to create high-performing schools, and then design the finance system to reinforce and support those high-performing schools."

Odden clarifies that he is advocating systemic reform, not a piecemeal approach to school improvement. "My position," he says, "is that we need a broad policy that indicates the clear goals for the system and the directions in which the system and the schools all should move. This is systemic reform, and I see three broad areas within systemic reform."

First, he calls for the articulation of student achievement standards in the core content areas. "These should be ambitious clear goals for student achievement in math, science, language arts, history, geography. It is important to note that these goals are focused in the main content areas."

He notes parenthetically that educational goals could be so diverse that they might range from students' self-esteem to the need for parental involvement to improved discipline to the importance of a good lunch program. "All of these goals are important, but systemic reform says that out of all those conflicting goals, student achievement is preeminent."

But goals for improved student achievement are not sufficient in isolation, Odden says. Systemic reform secondly stresses the need for a coherent set of policies that include high-quality curriculum standards, performance-based testing systems, revised ways of training teachers, and an emphasis on professional development for teachers. "We need revised ways of training teachers," he emphasizes, "so that new teachers know and can teach this curriculum—and we need to connect that to lots of professional development of the teachers already in the system so that they can learn to teach this curriculum successfully to all kids."

The third key to systemic reform, he says, is restructuring of management, finance, and governance. "Currently, school systems are organized in a bureaucracy. There is a hierarchy; decisions are made at the top and there are many supervisors throughout the system who control and monitor what teachers do in classrooms."

What other scenario does he propose? In his response, Odden points to other public and private sector attempts to create high-performing organizations. "You set clear goals, you flatten the organizational structure, you decentralize the whole system to work teams who actually provide the service (teaching kids in education), and you hold them accountable for results."

But such systems possess their own intricacies. What ensures they will be more successful than the present hierarchical educational system?

Odden points to an emerging research base and ticks off its main components that support his comments. "This research base includes six pieces. The first is making a school the key unit rather than the district. Next, in order to make wise decisions, the school needs a lot of information, which now is located in the central office."

What kind of information? "Individual schools need information on their students, on revenues and expenditures. It is very difficult to get any kind of fiscal information on what schools are spending because that information is district-based. Sites also need information on parents, parental opinions." The information, he adds, needs to be accessible on an on-line data system. "Technically we can do it, but there is a need for the up-front money to put it in place."

Training is the next pressing need. "The only way decentralized management works," Odden notes, "is if the people in the teams learn all the new skills and competencies that they need to do all their new tasks. They need training in team skills, in new curriculum and instruction skills, and in all kinds of multifunctional skills."

Not surprisingly, he adds, "They also need training in business skills. People in the schools will have to develop and run a budget. My suggestion is to set aside two to three percent of the school's budget for ongoing training. Those percentages are taken from private sector organizations that have been successful in implementing this kind of a high-involvement approach to creating high-performing organizations."

Besides having control over the budget, staff in individual schools also need the authority to hire staff. "We have to give them a large portion of the budget," Odden says, "and allow them to decide how to spend it, subject only to a constraint on the total amount of money that they spend. Part of their expenditure decisions revolves around how they want to staff the school, so they need the personnel function. They must be able to recruit, select, and decide on the mix of people who would be in that school and paid out of the school's budget."

"The task is designing high-performance schools with the resources we have."

But this sort of dramatically revamped personnel function—decentralized from districts to schools—further demands that the present system of teacher compensation be restructured. "The implication we can draw from places in the private sector that are doing this is that we should shift from paying for seniority and pay for skills and knowledge. In order to create high-performing schools, people need new skills and professional expertise. Rather than paying for indirect measures—in this case, education experience—we need to pay for direct measures of knowledge and skills and use the techniques coming out of the National Board for Professional Teaching Standards to identify what teachers know and can do."

He adds, "Many states are licensing teachers on the basis of knowledge and skills rather than on a set of approved university classes. The Chief State School Officers have a mechanism to do this, so there are activities already in place that can provide the technical tools to assess teachers' knowledge and skills. Skills-based competition would constitute the bulk of pay, but we should consider another piece of pay which would consist of school-based bonuses if schools meet improvement targets."

He points out that if incentives are provided on a schoolwide basis, a school is always compared to its historical base and its past record of achievement. "If the school improves—meaning, if student learning goes up sufficiently—it could be eligible for a bonus which could be used either as a salary bonus for everybody in the school or as a school improvement fund to finance education improvement activities."

Another component of the strategy Odden identifies is public school choice. He reasons that if the design and implementation of specific school strategies are decentralized to the people in the school, they will come up with their own strategies which will be effective at producing the desired outcomes. "One school may be very oriented towards humanities; another toward math and science. Their choice of implementation strategy may be of very high quality but it might not work for every child. A parent might want another focus, so kids would have to be released from the requirement that they go to the school in the attendance area in which they lived."

He notes, "Parents and students need to be given their choice of school,

which is the flipside of giving professionals the choice of how they want to meet the high achievement goals."

Finally, the education system also would need a substantial amount of deregulation. "The emphasis for finance is to drive the money to the schools rather than the district, let the school decide how to spend it, set aside two to four percent for professional development at the school level, and restructure teachers' pay away from seniority and towards knowledge and skills."

Preparation for Site-Based Budgeting

What specific preparation do school staff need to be able to manage their school's budget and also take on personnel functions? In his reply, Odden first warns that the changes he predicts and advocates cannot occur overnight. "This system has to be phased in," he cautions. "When Australia did this in the '80s, they had a lot of training in which school people learned how to develop and manage a program budget. If people are thrown into this it won't work. A lot of training must be provided. In the private sector it doesn't work if you don't provide training, and it won't work in the public sector without training either."

How long a phase-in does he think is realistic? "At least three to five years," he replies, "because you could be working on many things simultaneously. It takes a long time to do it well. I do think you can start out early with the outcome expectations, and you can start early with trying to get a new curriculum in place. Very aggressive budgeting at the local level should be phased in."

The link to results suggests new forms of assessment that extend beyond reliance on standardized tests. "There is a need for some newly developed performance-based testing system that you would want to teach to," Odden says. And while he believes in phasing in these changes, he warns against waiting until everything is in place. "We do not need to wait for everything to be in place before we make changes. The curriculum frameworks that are developing in many states and the *Standards* developed by the National Council of Teachers of Mathematics provide a good picture of the changes in student learning that the professional as well as the policy community wants to see in student learning. Setting goals, focusing them in the content area, and then linking them to some of these curriculum frameworks would give a very clear direction to the school and to the system that this is the new direction in which it needs to move."

The Press for Accountability

What new thinking about accountability needs to be introduced as schools move toward decentralization and linking finance to results? Odden points to teacher compensation in his his reply. "Skills-based pay is a piece of accountability, because you are providing pay for the skills and competencies needed in that work team to produce student learning. That is a shift for paying just for experience, which is what we do now.

"Another piece is the performance bonus. It is not individual merit pay; it is not individual incentive pay. It goes to all people in the school because we want the school to think cooperatively and collegially about what the school produces. That is another piece of accountability. In the private sector, some pay is at risk. If you do not do better, you do not get that bonus. We could think that way in education."

Third, low-performing schools need a monitoring system, he suggests. "Public school choice is one type of accountability mechanism. Parents and students can choose the school they attend. If they do not like your school, they can attend another one. They may not like yours, because it is not any good or because your focus is not their area of interest. The point is, they get to choose."

In the private sector, low-performing businesses do not last, Odden says. "It is difficult in education to go out of business, so we probably need a phased takeover system for consistently low-performing schools. There is a huge role for both districts and states to monitor the performance of all the schools in the district or the state, to target consistently low-performing schools, and if they are targeted as consistently low-performing, then they would be subject to phased intervention and finally takeover.

"The phased intervention could consist of people coming in and diagnosing your curriculum, such as staff from the National Center for Effective Schools. These experts could help the school diagnose itself, try to figure out what its strengths are, what it needs to improve, and then put together an improvement strategy for doing so."

But Odden is prepared to go even further with accountability. "If the improvement strategy does not work, you could remove the principal," he says. "There needs to be the possibility that people lose their jobs. A specter of real consequences to the teaching profession is that if the school is consistently on a downward track, there must be pressure to improve."

But how will teacher unions react to such suggestions of accountability? Odden is positive about their response. "The best thinkers and leaders within the unions understand that the unions of the 1990s and the twenty-first century must have the people in the profession control the profession and student learning. That means they must accept accountability in the system.

"In the old way of doing things, management had all the accountability. The workers fought management for money and improved working conditions. But in a decentralized management strategy, one of the goals is to

have the service providers perform the control functions. When you decentralize, you eliminate most supervisors, and through high degrees of involvement you want the providers to make business decisions, teaching and learning decisions, and control the work of the organization to produce much higher levels of outcomes."

He concludes, "A lot of national union leaders think this is the right way to go. A lot of new teachers believe this is what unions need to do. Many new teachers see the union and boards and bureaucracy and old-thinking administrators as part of the same problem. So the old form of industrial labor unionism in education is hopefully phasing out."

Ultimately, school staff will benefit from these new strategies, Odden maintains. "The people in the workplace—namely, teachers and administrators—are the ones who design how schools are structured. We cannot just do what we used to do—modestly reduce class size. We have to substantially reorganize how teaching and learning occurs in the school. Our only hope is to point out the goals and then provide a lot of money for training. We must count on school people to figure out how to do it, because they are the professionals. Many places are thinking that way."

What is Odden's personal opinion of such efforts? He smiles. "I think all of these attempts are exciting, in part because they will all focused on the school. Also, they are trying to figure out how to take the money they have and make the school much more productive. Pulling this off will be difficult, but the task is designing high-performance schools with the resources we have. In the private sector, such efforts are undertaken often with fewer resources, but the resources in education continue to creep up. This decentralized strategy can work with money going up as well as money going down, so I think it is the right generic strategy." ▲

Site-based Budgeting in Action

How does site-based budgeting work? What preparation and training do teachers need? What rewards do they find in the process? Here, we present the experience of the Wheeler Elementary School in Louisville, Kentucky—from the viewpoint of a key member of the school's participatory management team.

To Sandy Wilmus, the importance of site-based budgeting extends beyond the budgeting process to the larger opportunity of working collegially to meet the needs of children. Wilmus, a cheerful woman with a pleasant voice, sums up the attitude of the budget committee: "Let's not talk about money. Let's talk about the needs of children. What resources do you need?"

At Wheeler Elementary School in Louisville, Kentucky, site-based budgeting—along with participatory management—has been part of the school's landscape for four years, since Wilmus joined the staff. Such innovations are not new to Wheeler, a school which arranges its 575 children by age rather than grade.

Clearly, Wilmus believes in site-based budgeting. "Teachers want to know where the money goes," she points out. And she stresses that staff do not have *carte blanche* with the funds allocated to the school. "There are some formulas that guide site-based budgeting, such as salaries, but as a faculty we decide how the rest will be spent."

What structure has the school adopted to make the budgeting process most effective? "We have a participatory management team," Wilmus replies, "and a chair of the team. People on the team represent each of the teaching teams and the parents, and we developed a steering committee as well as subcommittees under it. One of these subcommittees is the budget committee."

The budget committee reviews the budget, examining the amount of money spent the previous year and projecting the school's needs for the following year. Their budget is submitted to the steering committee, which votes whether the budget should be accepted.

Wilmus emphasizes the flexibility of the process. "Every year our budget is re-done: We devise two or three plans to present to the steering committee."

Does Wilmus see direct benefits that accrue from site-based budgeting? Her response is emphatically positive. "Teachers know what supplies they need. We now have curriculum frameworks in Kentucky that we have to follow, so as an example, if I want to teach an integrated thematic unit on a country—such as Greece—I could buy books on Greek mythology, and I could approach the PE teacher and ask him to do the Olympics, and in math we could measure the long jump."

Monies allocated to staff development are important as well, she stresses, and the ethos at Wheeler strongly supports on-going training for teachers and staff. "Not only the children have to be learners," Wilmus says, "but we as teachers have to be adult learners too."

But Wilmus does not sugar-coat the difficulties with site-based budgeting. "It's tough," she admits. "It's tough to prioritize, to decide what program will get the money. It's hard for people to get together and not fight for their programs, but it helps immensely for teachers to understand where the money goes. The process gives them an appreciation for the fact that we have a custodial budget and a supplies budget. When it's laid out on the table, it's a comfort. People don't think: 'The principal probably has forty dollars; she could give it to me if she wanted to.' "

She ends with a pragmatic sentence: "You can't develop a vision if you don't know what's going on."

FINANCIAL INCENTIVES, STUDENT GAINS?

ANNE TURNBAUGH LOCKWOOD

IN what ways can schools or school districts be encouraged by financial incentives to change current practice? Are financial incentives wise? What should policymakers consider when designing such incentives? Finally, will financial incentives contribute to the need for schools and districts to be accountable for results? In this article, Lawrence O. Picus, director of the Center for Research in Education Finance at the University of Southern California, comments on these and other issues related to the use of financial incentives for schools and districts. Picus, who is also assistant professor of education in the division of policy and administration at USC, is well-known for his work in education finance. His work centers on the equity and distribution of funds to local school districts, the allocation and use of educational resources at the district, school and classroom levels, and the legal aspects of school finance reform. His most recent book (with Allan Odden) is School Finance: A Policy Analysis *(1992).*

"There is a general belief in schools that you can't do anything unless you have more money," Picus begins. Obviously this widely-held—and popular—belief runs counter to his own logic about the ways in which financial incentives provided by states to schools or districts could be more useful to educators than additional funds. He continues, "Incentives are most effective when they are designed to encourage schools or districts to reorganize, restructure, or refocus the resources already available to them to achieve their goals."

Financial incentives are not new on the educational scene, Picus explains, but have a long history when broadly interpreted. "Grant mechanisms have been used by the federal government since 1965 to insure that certain groups of children receive a variety of services. For example, Chapter 1 is an incentive program; it's a categorical grant but it provides money for additional services for children who come from low-income families."

Such categorical grants have a history of appeal to school districts. As Picus adds, "I'm not aware of a school district that elects *not* to take that money when it's offered to them." Instead, it is much more common for schools to try to attract additional funds so that they can take on new programs.

Shouldn't schools compete for or seek additional funds to support innovative programs? "My sense," Picus replies thoughtfully, "is that there is a risk that school districts spend too much energy searching out ways to get money to do things rather than thinking about how they can take the vast resources they already have to achieve their goals."

How can financial incentives work to encourage schools or districts to focus on reorganizing the resources they have to improve student outcomes? Picus provides a context for the current discussion of financial incentives. "Today people look at incentives as programs that provide relatively small amounts of funding to get schools or districts to focus on specific kinds of activities," he comments.

He speaks from his experience in California. "In the early 1980s, the state of California offered incentives to increase the length of the school day and school year. These incentives were quite successful; all the school districts in the state increased the length of time students spend in school."

But the logic behind the incentives may have been flawed. "Would those incentives have been as successful if all school districts had enough money to start with?" Picus asks. "All of them had been suffering through Proposition 13 and revenue shortfalls, plus the effects of the recession in the early 1980s. They really needed money."

Unfortunately, to Picus's thinking, to date the most effective incentives have been the negative ones, or sanctions. "That is, the threat to take over a school that doesn't improve," he says. "The reason we are seeing more thought devoted to sanctions rather than to the positive type of incentives is that it's difficult for states to offer fiscal incentives at a time when there isn't much money. So they search for other things, such as: Will the state take over the school?"

Incentives present an additional difficulty, he notes, and that is accurate measurement of inputs and outputs. "For instance, in South Carolina schools were rewarded for improvement on test scores, for increasing attendance, and for reducing dropout rates. Attendance was defined as both student and teacher attendance so that the students were not always the ones under scrutiny.

"But over time, there is a ceiling effect. It's obvious to anybody that as you approach 100% attendance, making improvements is going to be difficult," he observes. "One then has to reward staff constantly for making their target of 95%, which then becomes more like a general grant than an incentive. If you undo the program, then you've removed an incentive for achievement. Over time these kinds of programs have had that difficulty. A reward is provided, can you sustain it? Do you want to sustain it? Or do you use the reward to poke the system once and then hope the people in the school will be motivated to maintain that standard, whatever it is?"

Another concern related to ongoing professional development troubles Picus. "If you reward people for strong performance, there are some who argue that you're rewarding people

who are doing well—which is good—but the people who are penalized are the ones who need the most help."

And fiscal incentives can be limited in terms of their real financial power. "In California, when Senate Bill 813 passed, we were looking at incentives totaling $65 or $70 per student in a year in which the average revenue limit of a school district was in the range of $2500. Marginally, you could have a fairly dramatic effect on a school district, but in terms of what resources are available to really do something, you have much more power by reorganizing what is already there."

Returning to his thesis that schools should reconfigure themselves to accomplish more within existing resources, Picus admits that such a task is difficult—and explains why. "In school districts, we budget incrementally. That is, we look at what we're doing this year, try to figure out what it would cost to do it next year, and then add on any additional resources we might have.

"All government agencies function in this incremental way. Schools and school districts are more incremental than others because of the huge proportion of the budget tied up in labor resources. In California, for instance, 90% of the budget sometimes goes toward salaries and benefits. People tell me they can't do anything; they have no flexibility because their money is tied up in salaries."

To those educators, Picus likes to point out that the salaries are paying hard-working people who can perform other functions if asked. "What we need to do is structure incentives to get districts to refocus the resources they have in the programs that work."

Have financial incentives for individual schools or entire districts resulted in better outcomes? Is there sufficient evidence to suggest they could influence the delivery of instruction significantly? Picus considers the questions, then replies: "Let's say that ten schools in a state will be rewarded for the largest gain in test scores. You could approach that in your school by changing instructional methods to improve student outcomes, or you could try to do what you've been doing better. The approach that the teachers in the school elect to take to improve those test scores could vary.

> *"It's much easier to find a school that's failing than it is to reward one because it is successful."*

"There isn't a simple equation. One of the difficulties with incentives based on outcomes—particularly when tied to a standardized test—is that the result becomes teaching to the test, rather than thinking about instructional techniques that will result in students learning higher-order thinking skills."

He identifies another problem. "In education we can't even agree on our goals. Even if we had agreement on our goals, then incentives to reach those goals are going to be very difficult to design and develop. Motivating people to be interested in the incentives is difficult as well. Site-based management and site-based decision-making is a recognition on the part of educators and policymakers that the place to establish a lot of these goals is at the local school level."

Picus points to what he terms the "hybrid" nature of education. "We have a focus on national goals, even a national curriculum. We also have local decision-making. Simultaneously, at the state level we say we want students to achieve high outcomes and high performance—meaning we want them to know certain things. Then we provide incentives to schools that say that the school staff are the people who see these children every day and ought to know what's best for them. We provide incentives so that they can organize in a way they think works to move those children towards those goals."

Given the Janus-like face of education and the tension between state, national, and local goals, does he advocate wide-spread use of financial incentives to schools and districts? Picus replies carefully, "I think incentives are good, but the problem is getting a legislative body to come up with an incentive. It's very difficult, due to lack of agreement on goals. That's why the incentives that are the most effective are sanctions. It's much easier to find a school that's failing than it is to reward one because it is successful."

One incentive that has been used in some states has been to dangle the possibility of deregulation if schools or districts improve. As Picus explains, "If schools succeed, then they won't be subject to the same state requirements as every other school. But if they are succeeding under the current system, they are educating children within the regulations. Why will *not* having the regulations help them?"

Rather than pressing for deregulation, he believes in pushing for reorganizing schools. "One of the ways to reorganize is to assign people to new and different tasks. This becomes difficult, because teacher bargaining units have very real concerns for protecting people."

Regardless of this problem, Picus's

current thinking is that school systems need to create market structures. "Protection needs to be provided for teachers so that they can teach and not be afraid of harassment from a principal, or a poor evaluation because the principal doesn't happen to like them. The kind of protections to which employees are entitled need to be maintained."

But he points out that these protections come with a cost: a rigid system. "The rules are strict and have to do with seniority. There are many principals who believe that the way to run a school is to be authoritarian and tell everybody what to do. And there are many teachers who agree with that. There are also many principals who believe in building consensus with the staff and the community, and obviously many teachers agree with that."

Picus prefers not to take sides. "The secret is to match both groups of teachers with both groups of principals, and we don't do that very well. There are good and bad principals in both groups, and good teachers and teachers who are less successful in both groups. If the market for teachers was more flexible, perhaps we would see teachers gravitating towards schools whose management style and intellectual commitments more closely match their own beliefs about education."

Could incentives be created to encourage a better match between administrators and teachers? Picus considers his answer. "It would be necessary to undo the requirements of contract, which is not a state-level issue," he says. "I don't believe any state that allows collective bargaining would pass a law that says you cannot have seniority transfer rule provisions and contracts."

How can the market structure that he suggests be created? "One way would be to require principals to consider salary when they are making teacher hiring decisions. Eventually, all schools would have a mixture of experienced and inexperienced teachers, because principals would have an overall salary target. There should also be some guidelines to ensure that schools do not hire only teachers who are inexperienced and spend the rest of the money elsewhere.

"To me, that is a big incentive for reorganization because it requires thinking very differently about your teaching staff. Assumptions such as: 'He's been teaching for twenty years so he must be better' have to be challenged. Another assumption to be challenged is that if teachers are brand new they will be easier to mold into existing practice."

What are the basics that policymakers should know if they are going to design a financial incentive program for schools or school districts in their states? Picus replies, "First they have to be very clear about the goals they want these incentives to achieve. You can't design a system that changes behavior unless you know what you want that behavior change to accomplish. They should be aware that any incentive for individuals probably will affect only a small piece of the whole picture. Realistically, one incentive program will not take a failing school and make it excellent overnight.

"They also need to be sure that any system of incentives they create works together. In the reforms of the 1980s, we established a number of flat grant programs, which meant that schools or districts received money regardless of their district's wealth or current spending. These programs had the effect of being disequalizing because they gave a very wealthy district exactly as much as a very poor district. It may be that to make this work, more needs to be given to a poor district than to a wealthy district.

"What can be changed in school systems is what people do and how they do it because schools *are* people. They are well-educated people who are usually highly committed to what they are doing. You want to change their behavior so that students perform better. At the same time you need to be sure you are not alienating them or making they feel they are going to lose their jobs. If teachers don't want to do something, it won't happen. Any incentive program needs to be designed so that teachers want to participate in it."

The final, critical ingredient is patience. "School reform doesn't happen overnight," Picus says. "We expect instant results. If you have a tenth-grade student who reads at the third-grade level and you institute a new program in high school that brings that child up by one grade level in a year, the eleventh graders are only going to read at the fourth-grade level. Although that child has actually learned more, he or she is still seven years below grade level. The real question is: In seven years, will today's third graders be at the tenth-grade level? Nobody wants to wait seven years to see if a program works."

Wanting results alone isn't sufficient, Picus maintains. "We need to be clear *what* results, and we need to be realistic. You simply cannot tell a school where the average tenth grader is reading at a third-grade level that all children should be reading at grade level by the time they graduate. That is probably an impossibility. If we say we want all tenth graders to be up two grade levels in reading before they finish their senior year, that's a possibility."

And he ends with pivotal questions: "What do we do to get those children to where they need to be? How long does that take? What does that cost? These incentives are not going to change student outcomes overnight. They can change fiscal performance overnight because if you give them money to do one thing over another they'll all do the one thing, at least in their budget. But if we do something to improve student outcomes and we don't see results in six months, no one should be surprised." ♦

"Equal spending per pupil does not represent equal educational opportunity."

EQUITY OR ADEQUACY?

ANNE TURNBAUGH LOCKWOOD

WHAT lessons can be learned from the history of school finance? How did the drive toward equity in terms of dollar allocations to schools come about? In what ways is equity of resource allocation not sufficient, and in what new terms should educators begin to conceptualize school finance? We asked these questions of Richard A. Rossmiller, a longtime authority on school finance. Director of the National Center for Effective Schools from 1991-93, he now is professor emeritus of educational administration, University of Wisconsin-Madison. From 1973 to 1980 he was director of the Wisconsin Center for Education Research, and was a teacher, principal, and superintendent for several years before joining the School of Education faculty in 1961. In his research and teaching, Rossmiller has focused on school improvement, finance, and law. State legislatures, courts, and departments of education have called upon him frequently to serve as a consultant and expert witness in the areas of school finance and reform.

Many answers to the riddle of school finance's future can be unraveled from a scrutiny of the past, according to Richard A. Rossmiller. Rossmiller, who is frequently called upon as an expert witness in court cases on school finance, explains that an examination of the history of school finance in the United States reveals that the country moved slowly—but inexorably—toward equity of school financing, conceptualizing equity primarily in terms of dollars spent per pupil. Although such attempts were well-meaning, Rossmiller explains why they were not enough.

"During the first years of the United States, much effort was directed toward establishing common schools so that every child would have reasonable access to a school," he begins.

By the mid-1800s, these efforts were bearing fruit; states succeeded in delegating authority and responsibility to local school districts. "The states authorized the creation of the districts and the election of a governing board in those districts that was authorized to levy a tax on property to support the school." This property tax was the original means through which schools were financed.

Not surprisingly, variations in population resulted in sharp differences between schools. "Public policymakers began to be concerned about these variations," Rossmiller notes, "because some schools were hiring well-qualified teachers and others were not. Some schools had school sixty days a year; others held school 120 days a year. Policymakers began trying to find ways to get uniformity into this developing system."

Although laws were passed that required teacher licensure or a fixed number of days in a school year, they lacked impact because no mechanisms existed to enforce them. School board members typically were unpaid for their work, yet they held responsibility for the operation and organization of the schools. "If the state sued them or fined them for disobeying the law," Rossmiller says, "they would simply resign."

This need for uniformity—and the lack of an enforcement mechanism—resulted in the beginning of state aid. "Someone decided the states should give schools some money and if they didn't follow the rules the money could be taken away. In many ways that was the beginning of state aid: it was a mechanism to enforce state requirements."

As the nation grew and large metropolitan areas began to spring up during the Industrial Revolution, problems related to the funding of education increased. "People had to live near their workplaces because transportation facilities were not very good, which resulted in concentrations of people in relatively small areas," Rossmiller explains. "This concentration resulted in some school consolidation."

Until well into the 1800s schools boards maintained responsibility for the operation and organization of schools. Rossmiller notes that the first school superintendent was appointed in Buffalo, New York in the 1840s because board members were finding their duties too difficult and time-consuming. "Problems of financing increased along with the development of metropolitan areas and their suburbs, because some had relatively high property values and others had relatively low property values. Since schools were financed very largely by local property tax—even until well into the 1900s—this resulted in wide variations in the amount of money they had per pupil and the kinds of educational programs they could provide."

These disparities were documented in the first study of school finance undertaken at the turn of the century by Elwood Cubberley at Columbia University. "He found," Rossmiller reports, "that the schools that had high property values were able to provide broader and deeper programs, hire more teachers, had more reference materials, and had more support services than those that were relatively poor."

This landmark analysis resulted in a heightened focus on disparities in school spending, with the assumption that if spending per pupil could be equalized, problems incurred in resource allocation would decline or disappear. This assumption led to the development of the foundation program and the notion of power equalization.

As a result, the first half of the twentieth century was dominated by a vision of equality of educational opportunity that was defined as equal spending per pupil. "This definition," Rossmiller observes, "focused on equality of spending between districts. That is, one school district should be able to spend about the same amount of money as any other district."

He adds, "The one thing on which we agree in school finance at this time is that equal spending per pupil does not represent equal educational opportunity."

He points to students with special needs to illustrate his point. "The cost of educating children with disabilities is greater than the cost of educating children in regular programs, greater by a function of a little over two to one. It's greater because of smaller classes and more highly educated or experienced personnel."

He quickly states that although experts on school finance concur on this point, their accord does not simplify the difficulties schools face. "Now we're looking at a big question: What are the characteristics of a basic adequate educational program that should be provided for all children? We know enough about how to identify and quantify cost factors that make differences so that we could vary the distribution of money to individual school districts in accordance with their characteristics as districts and in accordance with the characteristics of the pupils they serve and the programs they provide. Through a system of weightings, you could account for the fact that some districts have more disabled children than others, some have more children at risk than others, and some have more children who do not speak English as their primary language than do others."

Warming to his explanation, Rossmiller adds: "You could also account for regional cost differences. In many states the cost of living is greater in some areas than in others, which is reflected in personnel salaries. Personnel salaries represent 75% to 80% of the typical school budget. Although the technology and methods exist to do a much finer job of distinguishing these differences than existed in 1950 or 1960, we still, in many cases, are looking at equal spending rather than at differentiating spending according to needs.

> *"Equity is like beauty: It's in the eye of the beholder."*

"Some states do use weightings as a way of recognizing higher costs, particularly for children with disabilities, but also for at-risk children and bilingual programs."

He adds wryly, "But to date, the art has far exceeded the practice."

Litigation and the Future

Rossmiller reflects over the plethora of court cases surrounding school finance in recent years, concluding that there is a trend toward closer examination of those measurable items that school dollars buy, rather than just looking at differences in spending between districts. He explains, "Courts are looking at the number of students per computer, the number of books and other instructional materials that are available, the depth and breadth of course offerings, and the qualifications of teachers. They are going beyond looking at differences in the amount of money being spent and are looking at what educational opportunities are available to students in various districts."

Ultimately, this scrutiny will lead to increased attention to student outcomes and improved methods of assessing student performance—which Rossmiller approves of wholeheartedly. "Can students do things?" he asks. "How well? Can they apply knowledge? That is the direction in which we are moving but it's going to be a long, slow battle."

Why a long battle? Rossmiller reflects a minute, and then responds: "People are willing to give money to their church or to organizations that supposedly do good things, but they don't want the government to take their money from wealthy districts and give it to poor districts. They want to make their own decisions about who should get their money. As long as we can't demonstrate that spending more money is going to make a difference in student achievement, it will be very difficult to convince legislators—and the public in general—that we need to spend more money on schools."

Leveling Up—Leveling Down

The recent movement in some states to equalize spending which results in wealthy districts being unable to spend past a certain amount is devastating, Rossmiller believes. "The results of tax limitation movements are quite clear in California, and are beginning to be clear in Oregon. In California we've had roughly 15 years where property taxes have been capped and spending has been leveled. As a result, class sizes have increased significantly so that it's not unusual to have 35-40 kids in a class. Teachers have to teach a class of 40 very differently than a class of 15 or 20.

"Extracurricular activities are privately funded to a large extent if

they exist—a pay for play approach. In many places, they have fundraising activities or they solicit contributions from private enterprise to maintain extracurricular programs. That's unfortunate, and it's shortsighted.

"There has also been a reduction in force. If those reductions are based on seniority, within a few years most of the faculty will retire and there won't be an intermediate cohort to take over. California provides an excellent case study of what happens when local taxes are limited."

But another factor is just as damaging, Rossmiller maintains, and is not discussed widely. "When local taxes are limited, local control is severely constrained. You tell people they can't spend more money on schools even if they want to. I don't know of anybody who has established beyond a doubt that you can spend too much money on education. If that were the case, why would people vie to send their children to the most expensive colleges? I do think that increased spending brings diminishing returns. That is, you reach a point where spending more dollars doesn't buy that much more."

Taxpayer vs. Student Equity

One of Rossmiller's concepts is that of taxpayer versus student equity, which he quickly defines. "Taxpayers vote," he says bluntly. "Kids don't. And the situation is further complicated by demographics.

"When I was a kid, I knew my grandparents and saw them regularly. Today, in many cases, grandparents are not proximate to their grandchildren. They have no direct interest in the quality of schools their grandchildren attend. If they live in a retirement village, they may not want to see any kids. What used to be a potential force for supporting school improvement has disappeared. Besides, we have many more senior citizens than we used to."

These factors distress him. "Legislatures need to look beyond the short term and ask: How is this action going to affect the quality of life in this state or this community in the next generation?

"Furthermore, equity is like beauty: It's in the eye of the beholder. In the area of equity, there are really two sides. One is how the money is raised, or taxpayer equity. The other side is student equity and relates to how the funds are distributed. One of the faults of many of our school financing arrangements is that the two are tied together. The amount of money that a school district gets from state aid is based on its financial wealth and not on its student needs. My primary concern is that we will have equitable programs that are increasingly inadequate in terms of meeting the needs of students."

Defining Adequacy in Education

How does Rossmiller define the concept of adequacy in education? What factors need to be considered before policy is determined? "We need a thorough discussion about the nature of educational opportunities to which all children should have access," he replies. "We need to define adequacy in education in a flexible way, and it has to encompass opportunities. How that opportunity is provided then becomes another question."

He continues, "We need to define the components and attributes of a set of high-quality basic educational opportunities. Having defined them, we have the technology to determine what they would cost in various regions of a state or even in the individual school districts. Funds could be allocated in a way that would provide those opportunities, which should be fully financed by the state. I would use a combination of sales, income, and property tax revenue to finance that basic educational opportunity. Local districts should be permitted to go beyond that if they choose to, if they are willing to support higher levels of spending. I would try to equalize the ability of individual districts to raise their level of spending, probably not to the highest district in the state, but to the 75th percentile or something close. That is my vision at this point. Of course, I would use pupil weightings and cost weightings to reflect legitimate differences in costs of providing adequate programs from one area to another."

He concludes with some vehemence, "That's the least this country can do to provide for the education of the next generation." ♣

For further reading...

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COMMENTARY

FLORENCE L. JOHNSON

IN the lead article of this issue of *Focus in Change*, we learn that Allen Odden sees part of the new direction for education finance as reinforcing and supporting "high-performing" schools. This presents three key questions for educators. First, how are high-performing schools defined in this context? Second, how can they be created? Third, how would a decision to support only those that are already high-performing affect equity?

FLORENCE L. JOHNSON
DIRECTOR, NCES

A look at the Effective Schools research and philosophy shows that the effectiveness of a school is based on the degree to which both quality and equity are provided for the entire student population. Students across all subgroups of the student body must achieve at high and equitable levels. There should not be disparities in the percentages of students within various racial, ethnic and gender groups on any one end of the performance continuum. By my definition, which is based on the Effective Schools research, a school that is successful in educating only its college-prep students while the remaining students, generally minority and low-income, perform in the lower and bottom quartiles, is not a high-performing or effective school.

How can we create high-performing effective schools that *do* provide quality and equity for all? The National Center for Effective Schools (NCES) and proponents of the Effective Schools Process have sought to answer this question through the positive results of more than two decades of research and proactive staff development in schools and districts throughout the United States and in several other countries. This work has shown that in order for schools to be successful in creating meaningful improvement, educators must have a vision for change, a belief that all children can learn, confidence in their own ability to teach all children, knowledge and skills about successful educational practice, and a commitment to getting the job done.

NCES has worked over the past five years to translate the knowledge gained from research on effective schools, educational change, and organizational development into a staff development program that builds the capacity of teachers, administrators, parents, and community members who are committed to making schools more effective (Holcomb & Peterson, 1991).

The Center's School-Based Instructional Leadership (SBIL) program uses the Effective Schools process to develop the vision as well as the decision-making, conflict-resolving, and leadership skills needed by staff who are interested in school improvement. Because appropriate use of student data is so important to improving schools, the Management Information System for Effective Schools (MISES), another component of the process, has been developed to fill the need for a cost-effective system that can easily be used to capture, store, access, and analyze the data needed to monitor the progress of students in each curricular area and provide timely data to guide decisions about program effectiveness and resource allocation.

What is the impact of the new direction of finance on equity? Many schools serving high concentrations of low-income minority students are not high-performing and effective schools. If funding is taken away from these schools, how will the students they serve have a chance for success? While I do not believe higher funding in urban poor schools is the only solution to their success, I am convinced that more funding is needed along with technical assistance to help educators identify the most pressing and appropriate services and programs which will help them achieve greater success. Although site-based management allows local school educators and parents to determine how school funds are spent, in many cases these stakeholders have limited experience with the complexity of school budgets. Educators are in need of staff development in order to create the technical skills and attitudes necessary for the new roles they must assume.

The future of school finance must include adequate resources to build staff capabilities to educate children who come to school with a variety of complex problems. Staff development in the Effective Schools process and a commitment to implementation will enhance educational quality and equity so that truly high-performing and effective schools will be the result.

Holcomb, E. L., & Peterson, K. D. (1991). The National Center for Effective Schools: Extending knowledge and practice of school improvement. *Educational Considerations, 18*(2), 3-6.

PUBLICATIONS

The National Center for Effective Schools publishes materials which are available at cost through the Wisconsin Center for Education Research Document Service. To order, please indicate the exact title(s) and number of copies needed. Bulk orders: 10% discount on orders between 11-100; 20% discount on orders over 100. Enclose a check or purchase order made payable to "Center Document Service" with your order and send to: WCER Document Service, Rm. 242, 1025 West Johnson Street, Madison, WI 53706. (Foreign orders are subject to an additional mailing and handling fee.)

Deal, T. E. & Peterson, K. D. (1993, June). The principal's role in change: technical and symbolic aspects of school improvement. Madison, WI: National Center for Effective Schools. (23 pps., $8).

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N·C·E·S

The National Center for Effective Schools, housed within the Wisconsin Center for Education Research of the School of Education at the University of Wisconsin-Madison, is a not-for-profit, grant-funded organization whose mission is to help schools provide a quality education to all students. To achieve this goal, its programs are threefold.

First, through its professional development program, *School-Based Instructional Leadership (SBIL)*, Center staff work to empower school leaders to implement and sustain a continuous process of school improvement. The program is administered to teams of central office staff, building-level administrators, teachers, support staff, and parent/community representatives.

Second, the Center's innovative program of computer software, *Management Information System for Effective Schools (MISES)* enables teachers and administrators to use a personal computer to access information to produce student lists or reports, monitor students' progress and scores, and create a database integrated with a selection of analytical tools so that information on learning and student progress is available at the school or classroom level.

Third, the Center generates a regular program of quarterly and biannual publications on current educational topics, publishes a series of occasional papers written for practitioners, and maintains a membership program for educators.

The NCES Professional Library

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